

CITY OF MARINE CITY
St. Clair County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF MARINE CITY	County ST CLAIR
Fiscal Year End 06/30/2006	Opinion Date 09/14/2006	Date Audit Report Submitted to State 11/14/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

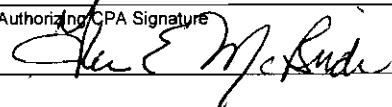
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) MCRIDE, MANLEY & MILLER PC		Telephone Number 810-765-4700	
Street Address 1115 S PARKER ST		City MARINE CITY	State MI
		Zip 48039	
Authorizing CPA Signature 	Printed Name Glen McBride	License Number 1101008018	

CITY OF MARINE CITY

TABLE OF CONTENTS

	<i>Page</i>
Management's Discussion and Analysis	i - iv
Independent Auditors' Report	1-2
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	3
Statement of Activities	4
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds	
Balance Sheet with the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes	
in Fund Balances - Governmental Funds	7
Reconciliation of the Governmental Funds	
Statement of Revenues, Expenditures, and	
Changes in Fund Balances with the Statement	
of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Change	
in Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Statement of Fiduciary Net Assets	12
Statement of Changes in Fiduciary Net Assets	
Fiduciary Funds	13
General Fund - Statement of Revenues, Expenditures,	
and Change in Fund Balance - Budget (GAAP Basis)	
and Actual	14
Major Street Fund - Statement of Revenues,	
Expenditures, and Change in Fund Balance -	
Budget (GAAP Basis) and Actual	15
Local Street Fund - Statement of Revenues,	
Expenditures, and Change in Fund Balance -	
Budget (GAAP Basis) and Actual	16
Notes to Financial Statements	17-34
Supplemental Information	
Pension Trust Fund	35-36
<i>Non-Major Governmental Funds:</i>	
Combining Balance Sheet	37
Combining Statement of Revenues, Expenditures, and	
Changes in Fund Balances	38



CITY OF MARINE CITY

TABLE OF CONTENTS (Continued)

Page

Supplemental Schedules

Other Governmental Funds:

Schedule of Revenues, Expenditures,
and Changes in Fund Balance -
Budget (GAAP Basis) and Actual

39-40

Component Units:

Schedule of Revenues and Expenditures-
Budget and Actual

41

General Fund:

Details of Revenues

42

Details of Expenditures

43-50

Water and Sewer Fund:

Schedule of Operating Expenses

51-54

Schedule of Indebtedness

55-60

Schedule of Indebtedness - Component Units

61



CITY OF MARINE CITY
Management's Discussion and Analysis
June 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City combined net assets increased 4.05% from a year ago from \$8.348 million to \$8.686 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$776,000 during the year (176% increase). This was the result of increases in Debt Service Fund Net Assets and Major & Local Street Net Assets. The business-type activities experienced a \$438,000 decrease in net assets, primarily as a result of depreciation of \$520,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 2,675	\$ 2,550	\$ 859	\$ 693	\$ 3,518	\$ 3,207
Noncurrent Assets	2,979	2,879	10,204	8,867	13,183	11,745
Total Assets	5,654	5,429	11,063	9,560	16,701	14,952
Long-Term Debt Outstanding	3,435	4,043	2,983	1,285	6,418	5,328
Other Liabilities	1,001	944	612	369	1,344	1,276
Total Liabilities	4,436	4,987	3,595	1,654	7,762	6,604
Net Assets						
Invested in Capital Assets - Net of Debt	(976)	(1,708)	7,225	7,527	6,249	5,819
Restricted	10	46	14	14	37	60
Unrestricted	2,184	2,104	229	365	2,400	2,469
Total Net Assets	\$ 1,218	\$ 442	\$ 7,468	\$ 7,906	\$ 8,686	\$ 8,348

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, increased by \$80,000 for the governmental activities. This represents an increase of approximately 4%. The current level of unrestricted net assets for our governmental activities stands at \$2.184 million, or about 65% of expenditures. This is within the targeted range set by the City during its last budget process.

CITY OF MARINE CITY
Management's Discussion and Analysis
June 30, 2006

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 848	\$ 795	\$ 1,295	\$ 1,229	\$ 2,143	\$ 2,024
Operating Grants and Contributions	305	376	—	—	305	376
General Revenues						
Property Taxes	2,153	2,123	—	—	2,153	2,123
State-Shared Revenues	510	516	—	—	510	516
Unrestricted Investment Earnings	132	70	18	9	150	79
Other	210	99	35	65	245	164
Total Revenues	4,158	3,979	1,348	1,303	5,506	5,282
Program Expenses						
Legislative	15	12	—	—	15	12
General Government	638	568	—	—	638	568
Public Safety	1,291	1,378	—	—	1,291	1,378
Highways and Streets	130	127	—	—	130	127
Public Works	748	734	—	—	748	734
Community and Economic Development	30	—	—	—	30	—
Recreation and Cultural	217	188	—	—	217	188
Other	197	279	—	—	197	279
Debt Service	116	125	—	—	116	125
Water and Sewer	—	—	1,786	1,719	1,786	1,719
Total Expenses	3,382	3,411	1,786	1,719	5,168	5,130
Change in Net Assets	\$ 776	\$ 568	\$ (436)	\$ (416)	\$ 338	\$ 152

Included in governmental activities revenues and business-type activities expenses is a transfer of approximately \$35,000 between these activities.

The City's net assets continue to remain healthy. Net assets grew by \$338,000. This was primarily because of increases in Net Assets of Governmental Activities.

Governmental Activities

The City's total governmental revenues increased by approximately \$179,000, primarily due to an increase in operating grants. Expenses of the governmental activities decreased by \$29,000 over those of the previous year, primarily due to a decrease in transfer to other funds.

CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2006

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewer treatment to all City residents. We experienced a decrease in our net operating loss. This was primarily due to an increase in user fees and contract revenue of approximately \$69,000.

The City's Funds

Our analysis of the City's major funds begins on page 5, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds include the General Fund, the Major & Local Street Funds, and the 1991 Unlimited Bond Series A Debt Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1,307,000. These two services are supported by general tax revenues of the City and State Revenue Sharing. In addition, the General Fund expended approximately \$726,000 on Public Works. These two areas represent approximately 63% of the General Fund's total expenditures.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The total budgeted expenditures for the General Fund were increased by approximately 8% during the year. The City's departments overall stayed within the budget, resulting in total expenditures \$250,212 below the budget. This caused the General Fund's fund balance to decrease from \$544,153 a year ago to \$517,638 at June 30, 2006.

Capital Asset and Debt Administration

At the end of June 30, 2006, the City had \$13,182,621 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in streets. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the year ending June 30, 2007, calls for a slight decrease in property tax rates from 17.0234 to 16.7180 mills. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2006

The building at 300 Broadway, the City Administrative and Police Department operating facility, has been vacated due to structural problems. Therefore, the City officials and the City taxpayers must make a decision as to the future of this building and permanent location of these offices.

Water usage rates have been increased by the rate of inflation plus amounts to retire debt issue for improvements at the Marine City Water Treatment facility for the year ending June 30, 2007.

Due to the State of Michigan's budget problems, the City of Marine City is concerned about State Revenue Sharing funds. In addition, the City's fringe benefit costs have increased due to an increase in the multiplier for pension benefits. The City's contribution rate increased to 11.64% for fiscal year 7/1/06 - 6/30/07. Lastly, the City is now responsible to set aside funds for retiree's health care cost that resulted from an Act 312 arbitration award a few years ago. The City has approved to set aside 2% of the City's full-time active employees payroll for fiscal year 7/1/06 - 6/30/07 for this purpose. The City's actuary has determined the appropriate funding level for this obligation to be approximately 15%.

Contacting the City Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Treasurer's office.



**McBride, Manley
& Müller P.C.**

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 14, 2006

Honorable Mayor and City Commission
City of Marine City
303 S. Water Street
Marine City, Michigan 48039

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marine City, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marine City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marine City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iv are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Marine City's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



CITY OF MARINE CITY

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	T.I.F.A. #1	T.I.F.A. #2	T.I.F.A. #3
ASSETS						
Current Assets						
Cash - checking and on hand	\$ 2,392,587	\$ 442,336	\$ 2,834,923	\$ 217,692	\$ 394,513	\$ 1,075,981
- savings and cash equivalent investments	15,864	66,214	82,078	-	-	-
Accounts and assessments receivable	5,513	338,136	343,649	-	-	-
Taxes receivable (net of allowance of \$42,034)	42,046	-	42,046	-	-	-
Due from other units of government	145,240	-	145,240	-	-	-
Due from agency	-	468	468	-	-	-
Internal balances*	4,435	11,932	-	-	1,700	-
Accrued revenue	68,979	-	68,979	-	-	-
Other assets	532	-	532	-	-	-
Total Current Assets	2,675,196	859,086	3,517,915	217,692	396,213	1,075,981
Other Assets						
Capital assets, net of accumulated depreciation	2,979,034	10,203,587	13,182,621	-	-	-
TOTAL ASSETS	\$ 5,654,230	\$ 11,062,673	\$ 16,700,536	\$ 217,692	\$ 396,213	\$ 1,075,981
LIABILITIES						
Current Liabilities						
Accounts payable	\$ 170,300	\$ 366,057	\$ 556,357	\$ 356	\$ 12,671	\$ 1,170
Due to agency	20	-	20	-	-	-
Internal balances*	11,932	4,435	-	-	-	1,700
Accrued wages and vacation pay	160,467	53,781	214,248	-	-	-
Accrued interest payable	33,413	13,003	46,416	3,865	-	-
Current portion of bonds	613,225	155,000	768,225	20,000	-	-
Due to other units and taxpayers	11,746	-	11,746	-	-	-
Total Current Liabilities	1,001,103	612,276	1,597,012	24,221	12,671	2,870
Noncurrent Liabilities						
Accrued sick pay	93,228	158,778	252,006	-	-	-
Long-term obligations, net of current portion	3,341,444	2,823,982	6,165,426	315,000	-	-
TOTAL LIABILITIES	\$ 4,435,775	\$ 3,595,036	\$ 8,014,444	\$ 339,221	\$ 12,671	\$ 2,870
NET ASSETS						
Investment in capital assets, net of related debt	\$ (975,635)	\$ 7,224,605	\$ 6,248,970	\$ -	\$ -	\$ -
Restricted	10,399	14,286	24,685	-	-	-
Unrestricted	2,183,691	228,766	2,412,457	(121,529)	383,542	1,073,111
TOTAL NET ASSETS	\$ 1,218,455	\$ 7,467,637	\$ 8,686,092	\$ (121,529)	\$ 383,542	\$ 1,073,111

* amounts have been offset in total column

See accompanying notes.

For the year ended June 30, 2008



**McBride, Manley
& Müller P.C.**

CITY OF MARINE CITY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	General	Major Street Fund	Local Street Fund	1991 Unlimited Bonds Series A Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash - checking and on hand	\$ 609,674	\$ 631,355	\$ 426,370	\$ 11,811	\$ 713,157	\$ 2,392,367
- savings and cash equivalent investments	15,864	-	-	-	-	15,864
Accounts and assessments receivable	5,513	-	-	-	-	5,513
Due from other funds	81,469	-	16,592	6,071	12,200	116,332
Due from other units of government	88,897	43,590	12,753	-	-	145,240
Other assets	532	-	-	-	-	532
TOTAL ASSETS	\$ 801,949	\$ 674,945	\$ 455,715	\$ 17,882	\$ 725,357	\$ 2,675,848
LIABILITIES						
Accounts payable	\$ 153,008	\$ 7,262	\$ 8,185	\$ -	\$ 1,845	\$ 170,300
Due to other funds	18	20,402	6,254	11,933	942	39,549
Accrued wages	45,009	39	615	-	611	46,274
Due to other units and taxpayers	11,746	-	-	-	-	11,746
Deferred revenue	74,530	8,832	-	5,124	8,033	96,519
TOTAL LIABILITIES	284,311	36,535	15,054	17,057	11,431	364,388
FUND EQUITY						
Reserved for:						
Debt service	-	-	-	825	21,967	22,792
Capital projects	-	-	-	-	35,000	35,000
Unreserved, reported in:						
General fund	517,638	-	-	-	-	517,638
Special revenue funds	-	638,410	440,661	-	188,600	1,267,671
Capital projects	-	-	-	-	337,698	337,698
Permanent fund	-	-	-	-	130,661	130,661
TOTAL FUND EQUITY	517,638	638,410	440,661	825	713,926	2,311,460
TOTAL LIABILITIES AND FUND EQUITY	\$ 801,949	\$ 674,945	\$ 455,715	\$ 17,882	\$ 725,357	\$ 2,675,848

See accompanying notes.



CITY OF MARINE CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balance - Governmental Funds	\$ 2,311,460
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	\$ 6,985,246	
Less: accumulated depreciation	<u>(4,006,212)</u>	
Net Capital Assets		2,979,034

Delinquent personal property taxes receivable and accrued fire revenues receivable were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds.

123,464

Long-term liabilities, including loans payable, are not due in the current period and, therefore, are not reported as liabilities in the governmental funds.

Loans payable	\$ 3,954,669	
Accrued interest on loans	33,413	
Compensated absences	<u>207,421</u>	
Total Long-Term Liabilities		(4,195,503)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>1,218,455</u>
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CITY OF MARINE CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the year ended June 30, 2006

	General	Major Street Fund	Local Street Fund	1991 Unlimited Bonds Series A Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Tax collections	\$ 1,907,686	\$ -	\$ -	\$ 134,688	\$ 126,760	\$ 2,169,145
Distributions from State of Michigan	510,475	208,879	77,233	-	-	796,587
Licenses, permits, fines, and fees	54,470	-	-	145,162	-	199,832
Fire protection fees	137,958	-	-	-	-	137,958
Foundations, sales and services, and contributions	-	-	-	-	53,662	53,662
Recreation	58,636	-	-	-	-	58,636
Grant proceeds and reimbursements	14,112	-	-	-	-	14,112
Telecommunications	26,516	-	-	-	-	26,516
Zoning and site plan fees	2,175	-	-	-	-	2,175
Interest and penalties earned	64,561	21,060	13,740	3,471	29,179	132,011
Reimbursements from other funds and local units	-	-	-	113,381	9,049	122,430
Funding for lease	-	-	-	-	-	-
Sale of assets	10,336	-	-	-	-	10,336
Refuse and miscellaneous revenue	4,208	-	-	-	-	4,208
Intergovernmental	305,130	-	-	-	-	305,130
Intergovernmental	44,813	-	-	-	-	44,813
TOTAL REVENUES	3,141,076	228,939	90,973	398,713	216,660	4,077,361
Other Financing Sources:						
Transfers from other funds	72,080	17,500	79,141	120,000	102,615	391,346
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,213,166	247,439	170,114	518,713	321,265	4,468,897
Expenditures:						
Legislative	15,370	-	-	-	-	15,370
General government	639,016	2,750	2,516	685	4,093	649,072
Public safety	1,376,382	-	-	-	-	1,376,382
Public works	726,408	-	-	-	-	726,408
Community and economic development	30,153	-	-	-	-	30,153
Recreation and cultural	197,831	-	-	-	-	197,831
Highways and streets	-	107,211	91,551	-	-	198,762
Other	139,530	-	-	-	41,718	181,248
Debt service - principal	-	-	-	450,000	160,000	610,000
- interest	13,251	-	-	77,500	19,353	110,104
TOTAL EXPENDITURES	3,137,841	109,861	94,069	528,196	226,164	4,096,330
Other Financing Uses:						
Transfers to other funds	101,740	50,441	-	-	153,215	305,396
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,239,581	160,402	94,069	528,196	378,379	4,400,728
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(28,615)	87,037	78,045	(11,482)	(67,114)	67,971
Fund Balance at July 1, 2005	544,153	551,373	364,616	12,307	771,040	2,243,489
FUND BALANCE AT JUNE 30, 2006	\$ 617,638	\$ 638,410	\$ 440,661	\$ 826	\$ 713,926	\$ 2,311,460

See accompanying notes.

CITY OF MARINE CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

June 30, 2006

Total Net Change in Fund Balances - Governmental Funds	\$ 67,971
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Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of activities.

Capital outlay	\$ 303,723	
Less: depreciation	<u>(203,195)</u>	
		100,528

Delinquent personal property taxes receivable and fire contract revenue were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds (8,941)

Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.

Loan principal payments	631,996
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Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used. (9,143)

Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due in the statement of activities. (5,990)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>776,421</u>
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CITY OF MARINE CITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2006

	Water Supply and Sewage Disp. System
ASSETS	
Current Assets	
Cash - checking and on hand	\$ 442,336
- savings and cash equivalent investments	66,214
Due from other funds	12,400
Accounts and assessments receivable	338,136
<i>Total Current Assets</i>	<u>859,086</u>
Other Assets	
Capital assets, net of accumulated depreciation	10,203,587
TOTAL ASSETS	\$ 11,062,673
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 386,057
Due to other funds	4,435
Accrued wages and vacation pay	53,781
Accrued interest	13,003
Current portion of long-term debt	155,000
<i>Total Current Liabilities</i>	<u>612,276</u>
Noncurrent Liabilities	
Accrued sick pay	158,778
Long-term obligations, net of current portion	2,823,982
TOTAL LIABILITIES	\$ 3,595,036
NET ASSETS	
Investment in capital assets, net of related debt	\$ 7,224,605
Unrestricted	228,766
Restricted	14,266
TOTAL NET ASSETS	\$ 7,467,637



CITY OF MARINE CITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUNDS

For the year ended June 30, 2006

	Water Supply and Sewage Disp. System
Operating Revenues:	
Metered sales	\$ 1,104,311
Sewage treatment contract	61,781
Hydrant rental and city usage	24,000
Water taps and meter sales	6,385
Sewer taps	4,000
Miscellaneous	9,322
TOTAL OPERATING REVENUES	1,209,799
Operating Expenses:	
Water	790,649
Sewer	939,041
TOTAL OPERATING EXPENSES	1,729,690
NET LOSS FROM OPERATIONS	(519,891)
Nonoperating Revenue (Expense):	
Debt service revenue	85,063
Interest revenue	17,659
Interest expense and agent fees	(55,804)
TOTAL NONOPERATING REVENUE (EXPENSES)	46,918
INCOME (LOSS) BEFORE TRANSFERS	(472,973)
Transfers in	34,518
CHANGE IN NET ASSETS	(438,455)
Net Assets at July 1, 2005	7,906,092
NET ASSETS AT JUNE 30, 2006	\$ 7,467,637

CITY OF MARINE CITY**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended June 30, 2006

	Water and Sewage Disposal System
<i>Cash Flows From Operating Activities:</i>	
Receipts from customers	\$ 1,198,424
Payments to suppliers	(263,638)
Payments to employees	(618,021)
Receipts from interfund services provided	24,000
Other receipts (payments)	9,322
<i>Net Cash Provided By Operating Activities</i>	<u>350,087</u>
<i>Cash Flows From Noncapital Financing Activities:</i>	
Due to other funds	(33,260)
Due from other funds	(12,400)
Transfer from other funds	34,518
<i>Net Cash Used In Noncapital Financing Activities</i>	<u>(11,142)</u>
<i>Cash Flows From Capital and Related Financing Activities:</i>	
Acquisition of capital assets	(1,857,047)
Proceeds from bonds	1,703,982
Principal paid on bonds	(65,000)
Interest and paying agent fees paid on revenue bonds	(48,207)
Debt service charges	85,063
<i>Net Cash Used In Capital and Related Financing Activities</i>	<u>(181,209)</u>
<i>Cash Flows From Investing Activities:</i>	
Interest on investments	17,659
<i>Net Cash Provided By Investing Activities</i>	<u>17,659</u>
<i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i>	<u>175,395</u>
Cash and Cash Equivalents at July 1, 2005	333,155
<i>CASH AND CASH EQUIVALENTS AT JUNE 30, 2006</i>	<u>\$ 508,550</u>
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:</i>	
Operating loss	\$ (519,891)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities:</i>	
Depreciation	519,991
<i>Change in assets and liabilities:</i>	
Accounts receivable	21,947
Accounts payable	320,701
Accrued wages and vacation	7,339
<i>Net Cash Provided By Operating Activities</i>	<u>\$ 350,087</u>

See accompanying notes.



CITY OF MARINE CITY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Pension Fund	Retiree Health Trust	Tax Collection Fund	Special Assessment Trust	Police Trust & Agency Fund
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ 13,257	\$ 57,632	\$ 504
Investments - at fair value	5,970,021	177,326	-	-	-
Personal property taxes receivable	-	-	413,789	-	-
Due from other governmental units	-	-	41	-	-
Special assessment receivable	-	-	-	21,118	-
Due from other funds	-	-	20	-	-
TOTAL ASSETS	\$ 5,970,021	\$ 177,326	\$ 427,107	\$ 78,750	\$ 504
LIABILITIES					
Accrued interest	\$ -	\$ -	\$ -	1,282	-
Current portion of debt	-	-	-	4,000	-
Due to other governmental units	-	-	342,807	-	504
Due to other funds	-	-	84,300	468	-
Long-term debt	-	-	-	73,000	-
TOTAL LIABILITIES	\$ -	\$ -	\$ 427,107	\$ 78,750	\$ 504
NET ASSETS					
<i>Held in Trust for Benefits</i>	<i>\$ 5,970,021</i>	<i>\$ 177,326</i>			

See accompanying notes.

CITY OF MARINE CITY**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

For the year ended June 30, 2006

	Pension Trust Fund	Retiree Health Trust
ADDITIONS		
Contributions:		
Employer	\$ 164,557	\$ 70,096
Employee	76,944	—
Total Contributions	241,501	70,096
Investment Income:		
Net appreciation in fair value of investments	31,533	(1,000)
Interest, dividends, and realized gains	445,301	4,257
Total Investment Gain	476,834	3,257
TOTAL ADDITIONS	718,335	73,353
DEDUCTIONS		
Benefits	233,241	85,875
Administrative expenses	47,877	125
TOTAL DEDUCTIONS	281,118	86,000
NET CHANGE	437,217	(12,647)
Net Assets at July 1, 2005	5,532,804	189,973
NET ASSETS AT JUNE 30, 2006	\$ 5,970,021	\$ 177,326



CITY OF MARINE CITY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 1,905,200	\$ 1,905,200	\$ 1,907,686	\$ 2,486
Distributions from State of Michigan	515,600	515,600	510,475	(5,125)
Licenses, permits, fines, and fees	29,000	61,815	54,470	(7,345)
Fire protection fees	134,500	134,500	137,958	3,458
Recreation	42,950	42,950	58,636	15,686
Grant proceeds and reimbursements	2,500	20,170	14,112	(6,058)
Telecommunications	--	26,500	26,516	16
Zoning and site plan fees	800	800	2,175	1,375
Interest and penalties earned	33,250	33,250	64,561	31,311
Funding for capital lease	--	15,390	10,336	(5,054)
Sale of assets	--	4,200	4,208	8
Refuse and miscellaneous	303,075	311,605	305,130	(6,475)
Intergovernmental - equipment revenue	45,000	45,000	44,813	(187)
TOTAL REVENUES	3,011,875	3,116,980	3,141,076	24,096
Other Financing Sources:				
Transfers from other funds	94,400	109,400	72,090	(37,310)
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,106,275	3,226,380	3,213,166	(13,214)
Expenditures:				
Legislative	16,445	16,765	15,370	1,395
General government	581,770	674,415	639,016	35,399
Public safety	1,335,840	1,468,260	1,376,382	91,878
Public works	781,790	787,485	726,408	61,077
Community and economic development	33,175	33,200	30,153	3,047
Recreation and cultural	189,123	216,693	197,831	18,862
Other	167,225	178,050	139,530	38,520
Debt service - interest	13,275	13,275	13,251	24
TOTAL EXPENDITURES	3,118,643	3,388,143	3,137,941	250,202
Other Financing Uses:				
Transfers to other funds	110,115	101,750	101,740	10
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,228,758	3,489,893	3,239,681	250,212
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(122,483)	(263,513)	(26,515)	236,998
Fund Balance at July 1, 2005	544,153	544,153	544,153	--
FUND BALANCE AT JUNE 30, 2006	\$ 421,670	\$ 280,640	\$ 517,638	\$ 236,998

See accompanying notes.



CITY OF MARINE CITY

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 208,000	\$ 208,000	\$ 208,879	\$ 879
Miscellaneous	3,000	3,000	—	(3,000)
Interest earned	7,000	7,000	21,060	14,060
TOTAL REVENUES	218,000	218,000	229,939	11,939
Other Financing Sources:				
Transfers from other funds	—	17,500	17,500	—
TOTAL REVENUES AND OTHER FINANCING SOURCES	218,000	235,500	247,439	11,939
Expenditures:				
General administration	2,750	2,750	2,750	—
Drain storm sewers	69,250	69,250	2,887	66,363
Routine maintenance	189,650	243,550	79,614	163,936
Bridge maintenance	32,350	32,350	2,063	30,287
Street sweeping	5,300	5,300	5,090	210
Ice and snow control	14,825	14,825	3,715	11,110
Traffic service	4,135	4,535	5,155	(620)
Surface maintenance M-29	900	900	—	900
Roadside maintenance M-29	500	500	415	85
Non-motorized transportation	5,900	10,800	6,228	4,572
Traffic signs M-29	1,500	1,500	376	1,124
General maintenance M-29	2,250	2,250	1,668	582
Ice and snow control M-29	1,500	1,500	—	1,500
TOTAL EXPENDITURES	330,810	390,010	109,961	280,049
Other Financing Uses:				
Transfers to other funds	49,000	54,000	50,441	3,559
TOTAL EXPENDITURES AND OTHER FINANCING USES	379,810	444,010	160,402	283,608
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(161,810)	(208,510)	87,037	295,547
Fund Balance at July 1, 2005	551,373	551,373	551,373	—
FUND BALANCE AT JUNE 30, 2006	\$ 389,563	\$ 342,863	\$ 638,410	\$ 295,547

See accompanying notes.



CITY OF MARINE CITY

LOCAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 76,000	\$ 76,000	\$ 77,233	\$ 1,233
Miscellaneous	1,000	1,000	—	(1,000)
Interest earned	5,200	5,200	13,740	8,540
TOTAL REVENUES	82,200	82,200	90,973	8,773
Other Financing Sources:				
Transfer from other funds	79,000	95,945	79,141	(16,804)
TOTAL REVENUES AND OTHER FINANCING SOURCES	161,200	178,145	170,114	(8,031)
Expenditures:				
General administrative	2,750	2,750	2,518	232
Drain/storm sewers	8,055	8,055	2,977	5,078
Routine maintenance	101,425	128,315	65,442	62,873
Non-motorized transportation	3,100	3,100	801	2,299
Street sweeping	12,300	14,550	12,788	1,762
Ice and snow control	16,920	16,920	4,488	12,432
Traffic service	3,300	4,100	5,055	(955)
TOTAL EXPENDITURES	147,850	177,790	94,069	83,721
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,350	355	76,045	75,690
Fund Balance at July 1, 2005	364,616	364,616	364,616	—
FUND BALANCE AT JUNE 30, 2006	\$ 377,966	\$ 364,971	\$ 440,661	\$ 75,690



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF CITY OPERATIONS AND FUND TYPES: The City of Marine City covers an area of four square miles. The City operates under an elected Mayor and Board of six commissioners and provides services to its residents (approximately 4,500) in many areas including law enforcement, fire protection, and sanitation.

REPORTING ENTITY: The financial reporting entity consists of the primary government of the City of Marine City and its discretely presented component units. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the following have been determined to be discretely presented component units of the City of Marine City:

T.I.F.A. #1
T.I.F.A. #2

T.I.F.A. #3

During the year ended June 30, 2006, T.I.F.A. #2 contributed \$35,000 and T.I.F.A. #3 contributed \$85,000 to Debt Service in fulfillment of bond obligations.

All of the component units were established to prevent urban deterioration and encourage economic development and activity as well as to encourage neighborhood revitalization and historic preservation.

The financial statements of the City do not include the Building Authority. This entity is inactive and has no assets, liabilities, or fund balance. The City retains its existence for possible future use. Educational services are provided to citizens through local school districts which are separate governmental entities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied on July 1, and become a lien on the following July 1. These taxes are due on August 31, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

MAJOR AND LOCAL STREET FUNDS - The Major Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on major streets. The Local Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on local streets.

1991 UNLIMITED BONDS SERIES A FUND - The 1991 Unlimited Bonds Series A Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This fund is not legally required to adopt a budget, and a budgetary comparison statement has not been presented for the Fund.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS *(Continued)*

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government reports the following major proprietary funds:

ENTERPRISE FUNDS - The Water Supply and Sewage Disposal System Fund reports operations that provide services which are financed by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Additionally, the government reports the following fund type:

PENSION FUND - This fund is an agent for retirement contributions for the City employees.

RETIREE HEALTH TRUST - This fund is an agent for health insurance contributions for the City's employees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts, totaling \$42,034.

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets acquired prior to July 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

Assets are depreciated using the straight-line method over the following useful lives:

Office Equipment	3-15 years
Buildings and Additions	15-60 years
Water and Sewer System	20-40 years
Roads and Sidewalks	20 years
Machinery and Equipment	5-10 years
Water and Sewer Plant and Equipment	20 years

CAPITALIZED INTEREST: The City capitalizes interest during the construction phase of proprietary fund assets if financed by revenue bonds. Interest is not capitalized for assets constructed with general obligation debt. There was no interest capitalized for the period.

COMPENSATED ABSENCES: The City accrues the liability for future vacation, sick, and other leave benefits that are attributable to employee services already rendered if this obligation relates to vested obligations, the payment of which is probable and can be reasonably estimated. It is the policy of the City to show unpaid vacation benefits as current, as they are payable within one year.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes	\$84,071	\$ --
Special Assessments	3,616	--
M-29 Contract	<u>8,832</u>	<u>--</u>
	<u>\$96,519</u>	<u>\$ --</u>

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the City to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended, of the City for these budgetary funds were adopted to the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the City Council. Actual expenditures exceeded those budgeted as follows:

<i>General Fund:</i>	
City Clerk	\$1,953
<i>Major Street Fund:</i>	
Traffic service	620
<i>Local Street Fund:</i>	
Traffic service	955



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the City of Marine City Treasurer. Michigan Act 20 P.A. 1943 allows a city to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days
4. U.S. or agency repurchase agreements
5. Mutual funds - investments which local unit can make directly
6. Bankers' acceptances of U.S. banks
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The above investment restrictions do not apply to the City's Pension Fund.

The deposits of the City are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "Cash and Investments."

The City's cash deposits are as follows:

Deposits are reflected on the individual fund balance sheet as follows:

Total government funds	\$2,392,367
Total proprietary funds	508,550
Total fiduciary funds	71,393
Total component units	1,688,186
Less cash on hand	(150)
Total Deposits	<u>\$4,660,346</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 3: CASH AND INVESTMENTS (Continued)

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$4,180,399 of the government's bank balance of \$4,668,964 was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Insured (FDIC)</u>	<u>Uninsured and Uncollateralized</u>	<u>Carrying Amount</u>	<u>Bank Balance/ Market Value</u>
Demand deposits	\$422,501	\$4,180,249	\$ 4,593,982	\$4,602,750
Savings and CD's	66,214	—	66,214	66,214
Cash on hand	—	150	150	—
	<u>\$488,715</u>	<u>\$4,180,399</u>	<u>4,660,346</u>	<u>\$4,668,964</u>
<u>Investments</u>				
Mutual funds - nonrisk category			<u>6,163,211</u>	
GRAND TOTAL CASH AND INVESTMENTS			<u>\$10,823,557</u>	
<u>Investments - Nonrisk Categorized</u>			<u>Carrying Amount</u>	<u>Market Value</u>
Mutual funds - Pension Fund - UBS Financial Services			\$ 5,970,021	\$5,970,021
- Retiree Health Trust - UBS Financial Services			177,326	177,326
- Other funds - LaSalle Bank			15,864	15,864
Total Investments			<u>\$ 6,163,211</u>	<u>\$6,163,211</u>

During the year, the City invested additional money for the Retiree Health Trust.

Other fund mutual fund investments are limited to those under SEC Rule 2a7 or like investment pools. In accordance with GASB Statement No. 31, these are carried at amortized cost for financial reporting purposes.

INTEREST RATE RISK: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the City made no investments that have market value risk during the current fiscal year.

CREDIT RISK: State law limits investments as stated above. The City's investment policy does not limit its investment choices beyond the statute. The authority to make investment decisions has been granted to the City Treasurer.

CONCENTRATION OF CREDIT RISK: The City places no limit on the amount the City may invest in any one issuer. 99% of the City's investments are with UBS Financial Services. These are mutual funds whose investments are limited to those allowed by statute.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 4: RESTRICTED ASSETS AND INVESTMENTS

Water and Sewer Fund - Restricted Assets:

Per Bond Ordinance 48, as amended by 48A and 57 - cash restricted to pay for asset replacement	\$ 5,000
Per City's designation - cash restricted for sewer construction	<u>9,266</u>
	<u>\$14,266</u>

Pension Fund and Retiree Health Care Trust:

Michigan state statute authorizes a political subdivision to make various investments with assets of public employee retirement systems including, but not limited to, the following:

1. The general account of a life insurer authorized to do business in this state, but the total of the assets invested shall not exceed 50% of the capital and surplus of the insurer.
2. Obligations of the United States or its agencies.
3. Banker's acceptances, commercial accounts, certificates of deposit or depository receipts issued by a bank, trust company, savings and loan association, or a credit union.
4. Commercial paper rated within 3 highest rate classifications by at least 2 rating services and matures not later than 270 days.

The City of Marine City's Pension and Retiree Health Care Trust deposits and investments are in accordance with statutory authority.

The Pension and Retiree Health Care Trust investments are as follows:

<u>Investment</u>	<u>Interest Rate</u>	<u>Amount</u>
Paine Webber Cash Fund	Variable	\$ 135,227
Paine Webber Trust Company	Variable	<u>6,012,120</u>
		<u>\$6,147,347</u>

All of the investments are held in the name of the City's Pension and Retiree Health Care Trust.

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets:

A summary of changes in governmental fixed assets follows:

	<u>Balance 6/30/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/06</u>
General Government:				
Equipment and vehicles	\$1,234,939	\$ 4,822	\$ 4,043	\$1,235,718
Buildings	537,919	28,412	--	566,331
Land	1,246,019	--	--	1,246,019
Public Safety:				
Equipment and vehicles	708,058	99,337	--	807,395
Buildings	505,127	15,860	--	520,987
Capitalized leases	373,348	20,844	--	394,192



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 5: FIXED ASSETS (Continued)

Governmental Activities Fixed Assets: (Continued)

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
Public Works:				
Equipment and vehicles	\$ 269,169	\$ 795	\$ --	\$ 269,964
Buildings	240,322	2,397	--	242,719
Capitalized leases	77,214	--	--	77,214
Recreation:				
Equipment	235,803	--	--	235,803
Buildings	226,960	--	--	226,960
Highways and Streets:				
Equipment	758,554	--	--	758,554
Roads/sidewalks	10,972	119,489	--	130,461
Cemetery:				
Equipment	30,364	795	--	31,159
Buildings	241,770	--	--	241,770
	6,696,538	292,751	4,043	6,985,246
Accumulated Depreciation	3,807,060	203,195	4,043	4,006,212
	<u>\$2,889,478</u>	<u>\$ 89,556</u>	<u>\$ --</u>	<u>\$2,979,034</u>

The above amounts include land with a cost of \$1,246,019 not subject to depreciation.

The assets above include assets acquired through capital leases with a cost of \$471,406 and accumulated depreciation of \$387,014.

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

General Government	\$ 16,867
Public Safety	72,967
Public Works	35,052
Recreation	18,879
Highways and Streets	48,491
Cemetery	10,939
Total	<u>\$203,195</u>

Business-Type Activities Fixed Assets:

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
Water plant, lines, and equipment	\$ 3,666,513	\$1,844,220	\$45,912	\$ 5,464,821
Sewer plant, lines, and equipment	14,406,092	12,825	--	14,418,917
Land	63,174	--	--	63,174
	18,135,779	1,857,045	45,912	19,946,912
Accumulated depreciation	(9,269,246)	519,991	45,912	9,743,325
	<u>\$ 8,866,533</u>	<u>\$1,337,054</u>	<u>\$ --</u>	<u>\$10,203,587</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 5: FIXED ASSETS (Continued)

Business-Type Activities Fixed Assets: (Continued)

Depreciation for the water and sewer systems totaled \$90,401 and \$429,590, respectively, for the year ended June 30, 2006.

NOTE 6: LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Changes in Indebtedness by Type:

	Payable at June 30, 2005	Increase	Decrease	Payable at June 30, 2006
General Obligation:				
General obligation bonds	\$4,345,000	\$ --	\$610,000	\$3,735,000
Fire truck leases	168,451	--	24,284	144,167
Police car lease	--	15,591	--	15,591
Backhoe lease	73,214	--	13,303	59,911
Accrued sick pay	79,568	13,660	--	93,228
Total General Obligation	4,666,233	29,251	647,587	4,047,897
Revenue Bonds	475,000	--	10,000	465,000
Drinking Water Revolving Fund Bonds	865,000	1,703,982	55,000	2,513,982
Special Assessment Bonds	81,000	--	4,000	77,000
Total Indebtedness	<u>\$6,087,233</u>	<u>\$1,733,233</u>	<u>\$716,587</u>	<u>\$7,103,879</u>

Changes in Indebtedness by Fund:

Total Water and Sewer Fund Indebtedness	\$1,340,000	\$1,703,982	\$ 65,000	\$2,978,982
Total Governmental Indebtedness	4,666,233	29,251	647,587	4,047,897
Special Assessments	81,000	--	4,000	77,000
Total Indebtedness	<u>\$6,087,233</u>	<u>\$1,733,233</u>	<u>\$716,587</u>	<u>\$7,103,879</u>

The general obligation bonds and indebtedness are to be financed by revenues of the Debt Service Fund. The installment loan revenue bonds are to be retired by the revenues of the Water and Sewer Fund. The special assessment bonds are to be retired from collection of special assessments.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 6: LONG-TERM DEBT (Continued)

The following is a summary of indebtedness and annual principal and interest requirements:

Summary of Indebtedness:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
General Obligations:				
Public Improvement Bond	1	6.25%	2007	\$ 75,000
1991 Unlimited Tax Bonds - Series A	1	2.00	2013	3,425,000
1992 Unlimited Tax Bonds - Series C	1	2.00	2012	135,000
1992 Limited Tax Wastewater Treatment System Bonds	1	2.00	2011	100,000
Fire truck leases (see note below)	1	6.61	2012	144,167
Backhoe lease (see note below)	1	4.80	2010	59,911
Police car lease (see note below)	1	11.30	2010	15,591
Accrued sick pay	N/A	N/A	N/A	93,228
Total General Obligations				<u>\$4,047,897</u>
Special Assessment Bonds	1	5.00	2021	<u>\$ 77,000</u>
Revenue Bonds - Water and Sewer System	1	5.00	2021	<u>\$ 465,000</u>
Drinking Water Revolving Funds Bonds	2	2.125 - 2.50	2026	<u>\$2,513,982</u>

Fire Truck Leases: These leases are capital leases. Interest has been imputed at the rate of 6.61% per annum. These leases have been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Imputed Interest	Future Minimum Lease Payments
9/14/98	\$275,975	6.61%	2007	\$ --	\$ --	\$ --
			2008	25,687	8,333	34,020
			2009	27,172	6,848	34,020
			2010	28,743	5,278	34,021
			2011	30,404	3,616	34,020
			2012	32,161	1,859	34,020
				<u>\$144,167</u>	<u>\$25,934</u>	<u>\$170,101</u>

Annual lease payments of \$34,020 are due each July 1.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 6: LONG-TERM DEBT (Continued)

Backhoe Lease: This lease is a capital lease. Interest has been imputed at the rate of 4.8% per annum. This lease has been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Imputed Interest	Future Minimum Lease Payments
7/10/2004	\$73,214	4.80%	2007	\$13,941	\$2,876	\$16,817
			2008	14,611	2,207	16,818
			2009	15,312	1,505	16,817
			2010	16,047	770	16,817
				<u>\$59,911</u>	<u>\$7,358</u>	<u>\$67,269</u>

Annual lease payments of \$16,817 are due each July 10.

Police Car Lease: This lease is a capital lease. Interest has been imputed at the rate of 11.3% per annum. This lease has been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Imputed Interest	Future Minimum Lease Payments
5/10/2006	\$15,591	11.30%	2007	\$ —	\$ —	\$ —
			2008	4,528	1,882	6,410
			2009	5,258	1,152	6,410
			2010	5,805	604	6,409
				<u>\$15,591</u>	<u>\$3,638</u>	<u>\$19,229</u>

Annual lease payments of \$6,410 are due each July 1.

Summary of Principal and Interest Requirements:

	Year Ending June 30				
	2007	2008	2009	2010	2011
General Obligations	\$652,888	\$573,200	\$578,000	\$577,500	\$576,800
Revenue Bonds	23,500	33,000	32,500	56,375	54,625
Drinking Water Revolving Fund Bonds	217,051	221,850	218,244	224,638	220,800
Special Assessment Bonds	7,750	7,550	7,350	7,150	7,925
Total Principal and Interest Requirements	<u>\$901,189</u>	<u>\$835,600</u>	<u>\$836,094</u>	<u>\$865,663</u>	<u>\$860,150</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 6: LONG-TERM DEBT (Continued)

Summary of Principal and Interest Requirements: (Continued)

	<u>Year Ending June 30</u>			
	<u>2012-2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>Total</u>
General Obligations	\$1,076,200	\$ —	\$ —	\$4,034,588
Revenue Bonds	246,875	225,000	—	671,875
Drinking Water Revolving Fund				
Bonds	1,099,894	152,189	738,218	3,092,884
Special Assessment Bonds	<u>36,850</u>	<u>33,751</u>	<u>—</u>	<u>108,326</u>
Total Principal and				
Interest Requirements	<u>\$2,459,819</u>	<u>\$410,940</u>	<u>\$738,218</u>	<u>\$7,907,673</u>

Complete details of bonded indebtedness are found on pages 55 through 61.

Debt Margin:

Michigan Compiled Law limits indebtedness incurred by cities to 10% of the total state equalized valuation of the city. For the fiscal year 05/06, the state equalized value of the City of Marine City was \$151,431,683; therefore, the legal debt margin is \$15,143,168.

Component Units - Tax Increment Bonds:

At June 30, 2006, the City had a total of \$335,000 of Tax Increment Bonds, series 2001 outstanding. The City has pledged its full faith and credit in the event the Component Unit Debt Retirement Fund does not pay the principal and interest payments as they come due (see page 61 for complete details).

NOTE 7: INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due from other funds/component units" or "Due to other funds/component units" on the balance sheet. The amounts of interfund/component units receivables and payables are as follows:

<u>Fund/Component Unit</u>	<u>Receivable</u>	<u>Fund/Component Unit</u>	<u>Payable</u>
		Major Street Fund	\$ 3,810
		Local Street Fund	6,254
		Water and Sewer Fund	272
		Tax Fund	<u>71,133</u>
General Fund	<u>\$81,469</u>		<u>\$81,469</u>
Local Street Fund	<u>\$16,592</u>	Major Street Fund	<u>\$16,592</u>
		Debt Service Fund - 1992	
		Limited Tax Bonds	\$ 941
Debt Service Fund-1991		Tax Fund	<u>5,130</u>
Unlimited Tax Bonds Series A	<u>\$ 6,071</u>		<u>\$ 6,071</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 7: INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES (Continued)

<u>Fund/Component Unit</u>	<u>Receivable</u>	<u>Fund/Component Unit</u>	<u>Payable</u>
		Debt Service Fund-1991	
		Unlimited Tax Bonds Series A	\$11,932
		Special Assessment Fund	468
			<u>\$12,400</u>
Water and Sewer Fund	<u>\$12,400</u>		
		General Fund	\$ 18
		Debt Service Fund-	
		Public Improvement Bonds	1
		Debt Service Fund-1991	
		Unlimited Tax Bonds Series A	1
			<u>\$ 20</u>
Tax Fund	<u>\$ 20</u>		
Debt Services Fund -			
Public Improvement Bonds	<u>\$ 6,511</u>	Tax Fund	<u>\$ 6,511</u>
Debt Service Fund - 1991		Water and Sewer Fund	\$ 54
Unlimited Tax Bonds Series B	<u>\$ 1,071</u>	Tax Fund	1,017
			<u>\$ 1,071</u>
Debt Service Fund - 1992		Water and Sewer Fund	\$ 4,109
Unlimited Tax Bonds Series C	<u>\$ 4,384</u>	Tax Fund	275
			<u>\$ 4,384</u>
Debt Service Fund - 1992			
Limited Tax Bonds	<u>\$ 234</u>	Tax Fund	<u>\$ 234</u>
T.I.F.A. #2	<u>\$ 1,700</u>	T.I.F.A. #3	<u>\$ 1,700</u>

NOTE 8: FUND BALANCE/RETAINED EARNINGS RESERVATIONS/DESIGNATIONS

Water and Sewer Fund:

Retained Earnings Reserved:

For asset replacement per Bond Ordinance 48, as amended by 48A and 57	\$ 5,000
For sewer construction	9,266
	<u>\$14,266</u>

NOTE 9: RISK FINANCING

The City of Marine City purchases insurance coverage from independent third parties and is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage during the year.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 10: INTERFUND AND COMPONENT UNIT TRANSFERS

<u>Transfers In</u>		<u>Transfers Out</u>	
		Capital Projects	\$ 30,750
		Retiree Health	41,340
			<u>\$ 72,090</u>
General Fund	<u>\$ 72,090</u>		
Major Street Fund	<u>\$ 17,500</u>	Capital Projects	<u>\$ 17,500</u>
		Capital Projects	\$ 28,700
		Major Street Fund	50,441
			<u>\$ 79,141</u>
Local Street Fund	<u>\$ 79,141</u>		
		T.I.F.A. #1	\$ 35,000
		T.I.F.A. #2	85,000
			<u>\$ 120,000</u>
1991 Unlimited Tax Bonds Series A	<u>\$ 120,000</u>		
		Capital Projects	\$ 10,000
		Special Assessment Fund	468
		Retiree Health	24,050
			<u>\$ 34,518</u>
Water and Sewer Fund	<u>\$ 34,518</u>		
Capital Projects	<u>\$ 83,740</u>	General Fund	<u>\$ 83,740</u>
		Retiree Health	\$ 875
		General Fund	18,000
			<u>\$ 18,875</u>
Cemetery Fund	<u>\$ 18,875</u>		

NOTE 11: LEASES

The City has entered into two leases for copying equipment. Minimum lease payments under these agreements total \$2,883 and \$2,062 each year during the years ended June 30, 2007 and 2008, respectively. The City has also entered into a lease for the police department. Minimum lease payments under this agreement total \$27,600 and \$11,500 each year during the years ended June 30, 2007 and 2008, respectively. These leases have been treated as operating leases. Lease expense for the period amounted to \$123,876.

NOTE 12: EMPLOYEE RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The City of Marine City Retirement System is a single-employer defined benefit pension plan administered by the City of Marine City. The plan provides retirement benefits to plan members and beneficiaries. The City Council of the City of Marine City has the authority to establish and amend benefit provisions. The City does not issue a stand-alone financial report for this Fund.

Substantially all of the City's employees participate in the City of Marine City Retirement System. The payroll for employees covered by the Retirement System for the year ended June 30, 2006, was approximately \$1,514,000, with payroll for the year totaling approximately \$1,800,000. Membership in the Retirement System as of June 30, 2005 (latest actuarial report available), is comprised of the following:

<u>Group</u>	<u>Employees</u>
Retirees and beneficiaries currently receiving benefits	19
Active employees - fully vested	15
- nonvested	13



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2006

NOTE 12: *EMPLOYEE RETIREMENT SYSTEM (Continued)*

A. *PLAN DESCRIPTION (Continued)*

Employees attaining the age of 55 who have completed 25 or more continuous years of service or who have attained the age of 60 with 10 or more years of service are entitled to annual benefits of 2.25 percent (2.0 percent prior to 2003) of their final average compensation for each year of continuous service. Benefits are reduced by .005 for each month, or fraction thereof, by which the date of benefit commencement precedes the member's attainment of age 60.

The Retirement System allows early retirement at the completion of 15 years of continuous service. Active employees, with 10 or more years of service, who become disabled, are entitled to the same benefit as if voluntarily retired. Disability benefits are paid until the earlier of death or recovery from disability. If the disabled member becomes gainfully employed, the pension benefit is reduced by the amount so earned.

Retiring members have the option of any of the following benefit payment plans:

1. Level straight life pension
2. Refund of a percentage, up to 100%, of the member's accumulated contributions, excluding interest, on the effective date of retirement
3. 100% survivor pension - member to receive reduced benefit with provision for survivor to receive same benefit for life upon member's death
4. 50% survivor pension - member to receive reduced benefit with provision for survivor to receive ½ of benefit for life upon member's death
5. Social security coordinated - member to receive increased benefit until age 65 and reduced benefit thereafter

In the event that all level straight life or social security coordinated payments terminate before the member's accumulated contributions are paid, the remainder is to be paid to the member's survivor.

If an employee terminates employment with the City and is not eligible for any other benefits under the Retirement System, the employee is entitled to the following:

- If voluntary retirement conditions have not been met - may receive lump sum payment equal to the larger of (1) the actuarial equivalent of the deferred pension, or (2) their accumulated contributions.
- If voluntary retirement conditions have been met - may receive vested benefits at normal retirement age.

B. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS*

The Pension Fund uses the accrual method of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized as earned by the pension plan. Benefits and refunds are recognized when paid.

Assets are recorded at market for reporting purposes and at market for actuarial valuation.

Investments, other than U.S. Government securities, that represent 5% or more of the plan's assets are as follows:

<u>Investments</u>	<u>% of Plan Assets</u>
Paine Webber Trust Company	99.0%



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2006

NOTE 12: EMPLOYEE RETIREMENT SYSTEM (Continued)

C. FUNDING POLICY

The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 10.90% of annual covered payroll.

The costs of administering the plan are paid from plan assets.

D. FUND BALANCE ALLOCATION

	Total Reserved Fund Balance	Fund Balance Reserved For Employee Contribution	Fund Balance Reserved For Employer Contribution	Fund Balance Reserved For Annuities	Unallocated Fund Balance
Balance at July 1, 2005	\$5,532,804	\$1,392,959	\$3,888,559	\$ 251,286	\$ --
Additions:					
Employee contributions	76,943	76,943	--	--	--
Employer contributions	164,557	--	164,557	--	--
Interest earnings	445,301	--	--	--	445,301
Unrealized gain	31,533	--	--	--	31,533
Total Balance and Add.	6,251,138	1,469,902	4,053,116	251,286	476,834
Trans. (net of ann. purchase)	2,431,279	35,786	392,076	2,432,375	(428,958)
Total Revised Balances	8,682,417	1,505,688	4,445,192	2,683,661	47,876
Deductions:					
Administration	47,876	--	--	--	47,876
Annuities	233,241	--	233,241	--	--
Transfer to annuity reserve	2,431,279	263,170	2,168,109	--	--
Balance at June 30, 2006	<u>\$5,970,021</u>	<u>\$1,242,518</u>	<u>\$2,043,842</u>	<u>\$2,683,661</u>	<u>\$ --</u>

At June 30, 2006, \$2,431,279 was transferred from employee and employer reserve to annuity reserve.

E. ANNUAL PENSION COST AND NET PENSION OBLIGATION

The City's annual pension cost for the current year totaled \$164,557, and there was no net pension obligation as of the latest valuation date of June 30, 2005. The annual required contribution for the current year was determined as part of the June 30, 2005, actuarial valuation using an individual entry-age actuarial funding method. The actuarial assumptions included: (a) 7.25% investment rate of return (net of administrative expenses), (b) a long-term inflation rate of 4.5%, (c) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (d) additional projected salary increases ranging from 0.2% to 4.0% per year, depending on age, attributable to seniority/merit, (e) the assumptions that benefits will not increase after retirement, and (f) market value of plan assets at actuarial plan date are used to determine the actuarial value of assets.

There was an unfunded actuarial accrued liability of \$783,666 at June 30, 2005. To remedy this, the City's contribution will increase to 11.64% of valuation payroll for 2006 wages. The actuary feels that this will be sufficient to meet the system's financial objective.

CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS *(Continued)*

June 30, 2006

NOTE 13: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The City matches employee contributions for those employees who elect not to participate in the City's pension plan. Currently, the City is matching contributions for three employees. The City Council approves the matching contribution rate each year.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the City that the City has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 14: CONTINGENCIES

The City's landfill has not been operated for several years. As of June 30, 2001, the State of Michigan has agreed to supervise and finance the closure of this landfill. The City will be responsible on an on-going basis for the treatment of leachate generated by the site.

NOTE 15: WORKING CAPITAL

The Water Supply and Sewage Disposal Fund has a working capital balance of \$246,810 at June 30, 2006.

NOTE 16: POSTRETIREMENT BENEFITS

The City has agreed to provide postretirement hospitalization insurance to all of its employees as follows:

The City's obligations for these benefits are established by labor contracts. Currently, under these contracts the City is responsible for 100% of the cost of these benefits.

The City has established the Retirees' Health Insurance Fund, to establish a fund to temporarily set aside funds for this obligation on a voluntary basis. This has been treated as a special revenue fund. Commencing July 1, 2004, the City has established a Retiree Health Trust Fund. The City intends to fund this cost annually, on an actuarially determined basis, but historically, the City has funded the Retiree's Health Insurance on a pay-as-you-go basis.

This plan covered 29 members as of the last actuarial report, dated June 30, 2003. Contributions for the year were \$70,096.

NOTE 17: CONTRACTUAL COMMITMENTS

In September 2005, the City issued \$2,500,000 in bonds, all of which have been designated for the construction of a new water filtration plant. As of June 30, 2006, the City is contractually obligated to expend approximately \$796,000 on this project.



SUPPLEMENTAL INFORMATION



CITY OF MARINE CITY

PENSION TRUST FUND REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

(Per latest actuarial report dated June 30, 2005)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets# (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Active Member Covered Payroll (c)	Unfunded AAL as a Percentage of Active Member Covered Payroll ((b - a)/c)
(\$ amounts in thousands)						
06/30/94	\$ **	\$ **	\$ **	** %	\$ **	\$ **
06/30/95	2,790	2,215	(575)	126.0	1,097	—
06/30/96	3,201	2,610	(591)	122.6	1,140	—
06/30/97	3,732	2,850	(882)	130.9	1,264	—
06/30/98	4,299	3,435	(863)	125.2	1,293	—
06/30/99	4,685	3,866	(819)	121.2	1,401	—
06/30/00	4,985	4,167	(818)	119.6	1,342	—
06/30/01	5,286	4,527	(815)	118.2	1,468	—
06/30/02	5,464	4,854	(610)	112.6	1,471	—
06/30/03	5,397	5,901	505	91.4	1,317	38.3
06/30/04*	5,384	5,952	568	90.5	1,370	41.5
06/30/05	5,575	6,358	783	87.7	1,510	51.9

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the system's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Beginning July 1	Actuarial Valuation Date June 30	Annual Required Contribution	Percent Contributed
1994	1993	\$ 81,587	100 %
1995	1994	95,068	100
1996	1995	89,606	100
1997	1996	88,652	100
1998	1997	81,304	100
1999	1998	52,176	100
2000	1999	45,946	100
2001	2000	39,569	100
2002	2001	40,921	100
2003	2002	50,414	100
2004	2003	58,921	100
2005	2004	161,159	100
2006	2005	164,557	100

Market value

** Actuarial information is unavailable for these years.

For required supplementary information see Note 12.

* During the year, the City increased pension benefits by 11.25%.



CITY OF MARINE CITY

PENSION TRUST FUND REQUIRED SUPPLEMENTARY INFORMATION (Continued)

June 30, 2006

(Per latest actuarial report dated June 30, 2005)

The information presented on the previous page was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Actuarial Cost Method	Individual entry age
Amortization Method	Level percent, open
Remaining Amortization Period	20 years
Asset Valuation Method	Smoothed market value
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	4.7 - 8.5%
Inflation Included in Increase	4.5%



CITY OF MARINE CITY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2006

Capital Projects Fund										
	Debt Service Funds					Special Revenue Funds			Permanent Fund	
	Capital Improvement	Public Improvement Bonds	1991 Unlimited Tax Bonds-Series B	1992 Unlimited Tax Bonds-Series C	1982 Limited Tax Bonds	Retiree Health Fund	Woodlawn Cemetery	Library Fund	Cemetery Perpetual Care	Total Non-Major Funds
Cash	\$ 372,698	\$ 5,517	\$ 2,805	\$ 1,251	\$ 9,169	\$ 159,238	\$ 14,417	\$ 17,401	\$ 130,661	\$ 713,157
Due from other funds	-	6,511	1,071	4,384	234	-	-	-	-	12,200
TOTAL ASSETS	\$ 372,698	\$ 12,028	\$ 3,876	\$ 5,635	\$ 9,403	\$ 159,238	\$ 14,417	\$ 17,401	\$ 130,661	\$ 725,357
LIABILITIES AND FUND BALANCE										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,845	\$ -	\$ -	\$ 1,845
Accrued wages	-	-	-	-	-	-	611	-	-	611
Deferred revenue	-	6,507	1,016	276	234	-	-	-	-	8,033
Due to other funds	-	1	-	-	941	-	-	-	-	942
TOTAL LIABILITIES	-	6,508	1,016	276	1,175	-	2,456	-	-	11,431
Fund Balance:										
Reserved for debt retirement	-	5,520	2,860	5,359	8,228	-	-	-	-	21,967
Reserved for street equipment	35,000	-	-	-	-	-	-	-	-	35,000
Unreserved	337,698	-	-	-	-	159,238	11,961	17,401	130,661	656,959
TOTAL FUND EQUITY	372,698	5,520	2,860	5,359	8,228	159,238	11,961	17,401	130,661	713,926
TOTAL LIABILITIES AND FUND BALANCE	\$ 372,698	\$ 12,028	\$ 3,876	\$ 5,635	\$ 9,403	\$ 159,238	\$ 14,417	\$ 17,401	\$ 130,661	\$ 725,357

See accompanying letter.



CITY OF MARINE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2008

Capital Projects Fund														
		Debt Service Funds					Special Revenue Funds				Permanent Fund			
		Public Improvement Bonds	1991 Unlimited Tax Bonds-Series B	1992 Unlimited Tax Bonds-Series C	1992 Limited Tax Bonds	Retiree Health Fund	Woodlawn Cemetery	Library Fund	Cemetery Perpetual Care	Total Non-Major Funds				
Revenues:														
Property taxes	\$	-	\$	86,536	\$	31,437	\$	6,762	\$	25	\$	-	\$	128,760
Interest income		13,240		1,520		645		294		355		621	4,661	29,179
User fees and other charges		-		-		3,554		7,108		21,859		-	-	53,662
Reimbursements from other funds and local units		-		-		9,049		-		-		-	-	9,049
TOTAL REVENUES		13,240		88,056		44,685		16,164		22,239		621	4,661	216,650
Other Financing Sources:														
Transfers from other funds		83,740		-		-		-		-		-	-	102,615
TOTAL REVENUES AND OTHER FINANCING SOURCES		96,980		88,056		44,685		16,164		22,239		621	4,661	321,265
Expenditures:														
Current:														
General government	-		3,090			452		305		246		-	-	4,093
Cemetery operations	-		-			-		-		-		41,718	-	41,718
Debt service:														
Principal	-		75,000			45,000		20,000		20,000		-	-	160,000
Interest and other charges	-		10,190			3,663		3,100		2,400		-	-	19,353
TOTAL EXPENDITURES	-		86,280			49,115		23,405		22,646		41,718	-	225,164
Other Financing Uses:														
Transfers to other funds	66,950		-			-		-		-		-	-	153,215
TOTAL EXPENDITURES AND OTHER FINANCING USES		86,950		88,280		49,115		23,405		22,646		41,718	-	375,379
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES		10,030		(224)		(4,430)		(7,241)		(407)		(1,330)	621	(57,114)
Fund Balances at July 1, 2005		362,668		5,744		7,290		12,800		8,635		218,032	13,291	16,780
FUND BALANCES AT JUNE 30, 2008	\$	372,698	\$	5,520	\$	2,560	\$	5,359	\$	8,228	\$	11,961	\$	17,401
														\$
														\$

See accompanying letter.

CITY OF MARINE CITY

OTHER GOVERNMENTAL FUNDS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
RETIREE HEALTH CARE				
Revenues:				
Interest and penalties earned	\$ 3,000	\$ 3,000	\$ 7,471	\$ 4,471
TOTAL REVENUES	3,000	3,000	7,471	4,471
Other Financing Uses:				
Transfers to other funds	126,490	126,490	66,265	60,225
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(123,490)	(123,490)	(58,794)	64,696
Fund Balance at July 1, 2005	218,032	218,032	218,032	—
FUND BALANCE AT JUNE 30, 2006	\$ 94,542	\$ 94,542	\$ 159,238	\$ 64,696
WOODLAWN CEMETERY				
Revenues:				
Interest and penalties earned	\$ 175	\$ 350	\$ 372	\$ 22
User fees and other charges	15,200	20,050	21,141	1,091
TOTAL REVENUES	15,375	20,400	21,513	1,113
Other Financing Sources:				
Transfers from other funds	20,355	20,355	18,875	(1,480)
TOTAL REVENUES AND OTHER FINANCING SOURCES	35,730	40,755	40,388	(367)
Expenditures:				
Cemetery operations	35,730	48,605	41,718	6,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	--	(7,850)	(1,330)	6,520
Fund Balance at July 1, 2005	13,291	13,291	13,291	—
FUND BALANCE AT JUNE 30, 2006	\$ 13,291	\$ 5,441	\$ 11,961	\$ 6,520



CITY OF MARINE CITY

OTHER GOVERNMENTAL FUNDS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET (GAAP BASIS) AND ACTUAL

(Continued)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
CEMETERY PERPETUAL CARE				
Revenues:				
Interest and penalties earned	\$ 1,500	\$ 1,500	\$ 4,661	\$ 3,161
TOTAL REVENUES	1,500	1,500	4,661	3,161
Fund Balance at July 1, 2005	126,000	126,000	126,000	—
FUND BALANCE AT JUNE 30, 2006	\$ 127,500	\$ 127,500	\$ 130,661	\$ 3,161
LIBRARY FUND				
Revenues:				
Property taxes	\$ 200	\$ 200	\$ 621	\$ 421
TOTAL REVENUES	200	200	621	421
Expenditures:				
Supplies	1,000	1,000	--	1,000
Capital outlay	5,500	5,500	--	5,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,300)	(6,300)	621	6,921
Fund Balance at July 1, 2005	16,780	16,780	16,780	--
FUND BALANCE AT JUNE 30, 2006	\$ 10,480	\$ 10,480	\$ 17,401	\$ 6,921



CITY OF MARINE CITY

COMPONENT UNITS

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
T.I.F.A. #1			
Revenues:			
Property taxes	\$ 67,000	\$ 66,140	\$ (860)
Interest	2,500	7,466	4,966
TOTAL REVENUES	69,500	73,606	4,106
Expenditures:			
Salaries	1,350	—	1,350
Payroll taxes	125	—	125
Retirement	150	—	150
Retiree health	225	—	225
Postage and supplies	1,700	—	1,700
Contractual	24,000	1,746	22,254
Capital outlay	46,900	46,884	16
Principal payment on bonds	20,000	20,000	—
Interest and agent fees	16,575	16,550	25
TOTAL EXPENDITURES	111,025	85,180	25,845
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (41,525)	\$ (11,574)	\$ 29,951
T.I.F.A. #2			
Revenues:			
Property taxes	\$ 100,700	\$ 81,170	\$ (19,530)
Interest	4,500	13,552	9,052
TOTAL REVENUES	105,200	94,722	(10,478)
Expenditures:			
Professional service	11,100	1,150	9,950
Capital outlay	122,050	—	122,050
Other financing uses - transfer to other funds	35,000	35,000	—
TOTAL EXPENDITURES AND OTHER FINANCING USES	168,150	36,150	132,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (62,950)	\$ 58,572	\$ 121,522
T.I.F.A. #3			
Revenues:			
Property taxes	\$ 289,900	\$ 287,144	\$ (2,756)
Interest	8,000	36,485	28,485
TOTAL REVENUES	297,900	323,629	25,729
Expenditures:			
Advertising	300	164	136
Professional service	151,700	58,821	92,879
Other financing uses - transfer to other funds	85,000	85,000	—
TOTAL EXPENDITURES AND OTHER FINANCING USES	237,000	143,985	93,015
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 60,900	\$ 179,644	\$ 118,744



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF REVENUES**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
<i>Tax Collections</i>	\$ 1,905,200	\$ 1,907,686	\$ 2,486
<i>Distributions From State of Michigan:</i>			
Sales tax	512,000	506,521	(5,479)
Liquor license fees	3,600	3,954	354
	<u>515,600</u>	<u>510,475</u>	<u>(5,125)</u>
<i>Licenses, Permits, Fines, and Fees:</i>			
Traffic violation fines	32,815	21,965	(10,850)
Permits and licenses	29,000	32,505	3,505
	<u>61,815</u>	<u>54,470</u>	<u>(7,345)</u>
<i>Other Revenues:</i>			
Fire protection fees	134,500	137,958	3,458
Recreation	42,950	58,636	15,686
Grants and reimbursements	20,170	14,112	(6,058)
Telecommunications	26,500	26,516	16
Zoning and site plan fees	800	2,175	1,375
Interest and penalties earned	33,250	64,561	31,311
Franchise fees	19,000	18,112	(888)
Miscellaneous	66,230	61,305	(4,925)
Intergovernmental - equipment rental	45,000	44,813	(187)
Sale of assets	4,200	4,208	8
Weed cutting services	500	635	135
Charge for services	9,950	9,887	(63)
Funding for capital leases	15,390	10,336	(5,054)
Cellular tower lease	7,000	7,000	-
Refuse	208,925	208,191	(734)
	<u>634,365</u>	<u>668,445</u>	<u>34,080</u>
<i>TOTAL REVENUES</i>	<u>3,116,980</u>	<u>3,141,076</u>	<u>24,096</u>
<i>Other Financing Sources:</i>			
Transfers from other funds	109,400	72,090	(37,310)
<i>TOTAL REVENUES AND OTHER FINANCING SOURCES</i>	<u>\$ 3,226,380</u>	<u>\$ 3,213,166</u>	<u>\$ (13,214)</u>



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
LEGISLATIVE			
City Commission:			
Salaries	\$ 6,000	\$ 6,000	\$ --
Payroll taxes and benefits	460	459	1
Supplies and publications	380	305	75
Training and tuition	500	139	361
Dues and memberships	4,825	4,140	685
Travel and meals	400	131	269
Community promotion	4,200	4,196	4
TOTAL LEGISLATIVE	\$ 16,765	\$ 15,370	\$ 1,395
GENERAL GOVERNMENT			
City Manager:			
Salary	\$ 52,900	\$ 52,872	\$ 28
Payroll taxes and benefits	30,165	30,097	68
Retiree health	2,250	2,140	110
Supplies and publications	2,110	1,842	268
Telephone	1,350	1,245	105
Travel and meals	1,350	1,243	107
Training	105	35	70
Equipment maintenance	395	394	1
	<u>90,625</u>	<u>89,868</u>	<u>757</u>
Assessor:			
Supplies and publications	2,210	1,565	645
Repairs and maintenance	400	335	65
Contractual	26,950	25,995	955
Telephone	775	765	10
Advertising	540	530	10
Board of review	1,075	780	295
	<u>31,950</u>	<u>29,970</u>	<u>1,980</u>
Legal and Professional:			
Contractual	<u>150,000</u>	<u>135,376</u>	<u>14,624</u>



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
City Clerk:			
Salaries	\$ 28,000	\$ 27,963	\$ 37
Payroll taxes and benefits	16,030	15,839	191
Retirement	2,855	2,851	4
Retiree health	1,050	1,021	29
Supplies and publications	8,530	8,235	295
Contractual	7,250	10,440	(3,190)
Dues, memberships, and fees	315	280	35
Telephone	1,525	1,518	7
Travel and meals	1,000	910	90
Advertising	7,000	6,540	460
Miscellaneous	75	75	—
Training and tuition	65	—	65
Equipment maintenance	450	430	20
Capital outlay	3,910	3,906	4
	<u>78,055</u>	<u>80,008</u>	<u>(1,953)</u>
City Treasurer:			
Salaries	51,110	51,107	3
Payroll taxes and benefits	48,465	48,333	132
Retirement	5,625	5,623	2
Retiree health	2,150	2,122	28
Supplies and publications	6,370	6,142	228
Repairs and maintenance	600	596	4
Contractual	3,730	3,726	4
Dues and memberships	360	360	—
Service charges	270	61	209
Telephone	1,285	1,284	1
Travel and meals	1,070	869	201
Training and tuition	775	740	35
Capital outlay	920	916	4
	<u>122,730</u>	<u>121,879</u>	<u>851</u>



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
Buildings and Grounds:			
Salaries	\$ 37,185	\$ 34,016	\$ 3,169
Payroll taxes and benefits	2,700	2,602	98
Retirement	3,775	3,438	337
Retiree health	1,425	1,291	134
Supplies and publications	3,575	2,941	634
Repairs and maintenance	7,075	4,498	2,577
Contractual	32,715	30,441	2,274
Capital outlay	28,420	28,411	9
Utilities	31,055	31,050	5
Equipment rental	6,300	5,747	553
	<u>154,225</u>	<u>144,435</u>	<u>9,790</u>
Watershed Council:			
Salaries	5,365	5,303	62
Payroll taxes and benefits	425	406	19
Retirement	600	562	38
Retiree health	225	212	13
Supplies and publications	465	7	458
Repairs and maintenance	50	—	50
Travel	200	149	51
Community promotion	1,200	—	1,200
Training and tuition	100	50	50
Contractual	35,800	28,791	7,009
Permit fees	2,400	2,000	400
	<u>46,830</u>	<u>37,480</u>	<u>9,350</u>
TOTAL GENERAL GOVERNMENT	\$ 674,415	\$ 639,016	\$ 35,399
PUBLIC SAFETY			
Police:			
Salaries	\$ 550,500	\$ 536,274	\$ 14,226
Payroll taxes and benefits	178,225	176,654	1,571
Retirement	60,600	59,055	1,545
Retiree health	22,775	21,875	900
Physical exams	385	—	385
Supplies and publications	9,050	7,870	1,180
Fuel	12,700	12,590	110
Ammunition	2,625	1,523	1,102
Clothing	4,925	4,703	222
Laundry	750	619	131
Household and miscellaneous	1,565	1,560	5
Repairs and maintenance	14,855	9,629	5,226
Professional and contractual	37,075	36,494	581
Building lease	20,700	20,700	—
Service and witness fees	765	731	34
Dues and memberships	200	190	10
Telephone	14,700	12,367	2,333
Travel and meals	1,260	595	665
Equipment rental	450	89	361
Training and tuition	5,000	4,676	324
Capital outlay	145,870	125,245	20,625
	<u>1,084,975</u>	<u>1,033,439</u>	<u>51,536</u>



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
PUBLIC SAFETY (Continued)			
Fire:			
Salaries	\$ 139,320	\$ 135,341	\$ 3,979
Payroll taxes and benefits	28,300	26,574	1,726
Retirement	5,185	5,183	2
Retiree health	1,925	1,920	5
Physical exams	1,000	605	395
Supplies and publications	5,770	3,670	2,100
Fuel	3,020	3,020	--
Clothing	9,240	7,148	2,092
Repairs and maintenance	14,325	11,047	3,278
Contractual	4,840	2,867	1,973
Dues and memberships	500	355	145
Telephone	10,010	10,007	3
Travel and meals	600	66	534
Community promotion	550	--	550
Advertising	100	--	100
Utilities	13,700	12,362	1,338
Miscellaneous	1,110	1,110	--
Training and tuition	5,300	3,403	1,897
Capital outlay	14,405	9,845	4,560
Equipment lease	25,085	25,083	2
Hydrant rental	14,000	14,000	--
	<u>298,285</u>	<u>273,606</u>	<u>24,679</u>
Inspections:			
Salaries	31,055	31,055	--
Payroll taxes and benefits	16,350	15,702	648
Retirement	3,900	3,298	602
Retiree health	1,475	1,232	243
Fuel	500	459	41
Supplies and publications	3,150	814	2,336
Contractual	22,310	12,815	9,495
Repairs and maintenance	765	733	32
Dues and memberships	400	175	225
Miscellaneous	85	81	4
Advertising	200	--	200
Telephone	1,300	1,245	55
Travel and meals	1,735	593	1,142
Training and tuition	800	184	616
Capital outlay	975	951	24
	<u>85,000</u>	<u>69,337</u>	<u>15,663</u>
TOTAL PUBLIC SAFETY	\$ 1,468,260	\$ 1,376,382	\$ 91,878

See accompanying letter.



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
PUBLIC WORKS			
General Maintenance:			
Salaries	\$ 215,575	\$ 207,048	\$ 8,527
Payroll taxes and benefits	124,495	118,338	6,157
Retirement	30,500	26,520	3,980
Retiree health	11,975	10,351	1,624
Supplies and publications	7,410	6,115	1,295
Clothing	5,400	5,400	—
Fuel	16,000	15,882	118
Repairs and maintenance	26,410	19,805	6,605
Contractual	1,775	527	1,248
Dues, memberships, and service fees	750	517	233
CDL consortium fee	450	420	30
Telephone	4,600	4,298	302
Travel and meals	2,290	2,092	198
Advertising	315	136	179
Utilities	14,065	13,477	588
Equipment rental	13,325	13,303	22
Capital outlay	29,400	3,192	26,208
Training and tuition	1,525	560	965
	<u>506,260</u>	<u>447,981</u>	<u>58,279</u>
Street Lighting	<u>77,500</u>	<u>77,739</u>	<u>(239)</u>
Refuse:			
Contractual	203,725	200,688	3,037
TOTAL PUBLIC WORKS	<u>\$ 787,485</u>	<u>\$ 726,408</u>	<u>\$ 61,077</u>



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
COMMUNITY AND ECONOMICAL DEVELOPMENT			
<i>Planning and Zoning:</i>			
Contractual	\$ 29,950	\$ 28,381	\$ 1,569
Supplies and publications	1,900	1,552	348
Travel and meals	150	—	150
Advertising	1,000	111	889
Training and tuition	200	109	91
TOTAL COMMUNITY AND ECONOMICAL DEVELOPMENT	\$ 33,200	\$ 30,153	\$ 3,047



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
RECREATION AND CULTURAL			
Recreation:			
Salaries	\$ 48,000	\$ 47,936	\$ 64
Payroll taxes and benefits	3,675	3,667	8
Retirement	1,735	1,642	93
Supplies and publications	8,335	6,085	2,250
Community promotion	80	80	—
Repairs and maintenance	125	124	1
Contractual	22,600	17,636	4,964
Dues and memberships	400	360	40
Telephone	1,415	1,410	5
Advertising	360	—	360
Travel and meals	700	262	438
Training and tuition	750	358	392
	<u>88,175</u>	<u>79,560</u>	<u>8,615</u>
Parks and Beach:			
Salaries	71,400	69,828	1,572
Payroll taxes and benefits	5,345	5,342	3
Retirement	3,435	3,265	170
Retiree health	1,300	1,221	79
Supplies and publications	11,835	11,830	5
Contractual	5,700	5,274	426
Telephone	585	582	3
Utilities	900	889	11
Repairs and maintenance	4,475	3,475	1,000
Capital outlay	1,893	—	1,893
	<u>106,868</u>	<u>101,706</u>	<u>5,162</u>
Safety Program:			
Supplies and publications	1,125	308	817
Repairs and maintenance	1,400	—	1,400
Training and tuition	400	—	400
Travel and meals	500	—	500
	<u>3,425</u>	<u>308</u>	<u>3,117</u>
Library:			
Supplies and publications	775	380	395
Repairs and maintenance	3,385	3,355	30
Contractual	6,750	5,428	1,322
Telephone	1,465	1,432	33
Utilities	5,850	5,662	188
	<u>18,225</u>	<u>16,257</u>	<u>1,968</u>
TOTAL RECREATION AND CULTURAL	\$ 216,693	\$ 197,831	\$ 18,862



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
OTHER EXPENDITURES			
Insurance:			
Workers' compensation	\$ 17,030	\$ 17,026	\$ 4
Liability insurance	82,175	67,033	15,142
	<u>99,205</u>	<u>84,059</u>	<u>15,146</u>
Unemployment	<u>8,020</u>	<u>8,015</u>	<u>5</u>
Special Projects:			
Supplies	31,975	16,481	15,494
Contractual	24,025	16,157	7,868
Settlements and property tax	14,825	14,818	7
	<u>70,825</u>	<u>47,456</u>	<u>23,369</u>
TOTAL OTHER EXPENDITURES	\$ <u>178,050</u>	\$ <u>139,530</u>	\$ <u>38,520</u>
OTHER FINANCING USES			
Transfer to Capital Improvements Fund	\$ 83,750	\$ 83,740	\$ 10
Transfer to Cemetery Fund	18,000	18,000	--
TOTAL OTHER FINANCING USES	\$ <u>101,750</u>	\$ <u>101,740</u>	\$ <u>10</u>



CITY OF MARINE CITY**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
WATER			
General Administrative:			
Salaries	\$ 48,970	\$ 48,966	\$ 4
Payroll taxes and benefits	3,750	3,746	4
Retirement	5,350	5,346	4
Supplies and publications	3,215	2,883	332
Workers' compensation	10,000	9,134	866
Retiree health	1,985	1,981	4
Liability insurance	7,860	7,466	394
Repairs and maintenance	425	357	68
Contractual	6,425	6,418	7
Equipment lease and miscellaneous	155	104	51
Telephone	385	383	2
	<u>88,520</u>	<u>86,784</u>	<u>1,736</u>
System Maintenance:			
Salaries	39,500	29,299	10,201
Payroll taxes and benefits	3,050	2,241	809
Retirement	4,275	3,199	1,076
Retiree health	1,600	1,186	414
Supplies	4,670	2,106	2,564
Contractual	900	900	--
Repairs and maintenance	20,975	18,467	2,508
Dues and memberships	160	94	66
	<u>75,130</u>	<u>57,492</u>	<u>17,638</u>



CITY OF MARINE CITY**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
WATER (Continued)			
Plant Operations:			
Salaries	\$ 331,930	\$ 331,921	\$ 9
Payroll taxes and benefits	102,995	94,674	8,321
Retirement	35,975	34,628	1,347
Retiree health	13,550	13,546	4
Supplies and publications	3,125	2,308	817
Physical exams	100	—	100
Fuel	750	725	25
Clothing	2,100	2,084	16
Lab supply	9,500	8,521	979
Custodial supply	600	232	368
Treatment supplies	16,170	16,167	3
Public supply and permit fees	1,235	1,132	103
Repairs and maintenance	12,855	9,074	3,781
Contractual	6,560	5,342	1,218
Dues and memberships	500	410	90
Utilities	27,975	27,667	308
Telephone	5,700	5,646	54
Advertising	810	804	6
Travel and meals expense	1,650	826	824
Equipment lease	500	—	500
Training and tuition	1,000	265	735
Depreciation	—	90,401	(90,401)
	575,580	646,373	(70,793)
TOTAL WATER OPERATING EXPENSES	\$ 739,230	\$ 790,649	\$ (51,419)



CITY OF MARINE CITY**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
SEWER			
General Administrative:			
Salaries	\$ 48,970	\$ 48,966	\$ 4
Payroll taxes and benefits	3,750	3,746	4
Retirement	5,350	5,347	3
Workers' compensation	3,600	3,561	39
Retiree health	1,985	1,981	4
Supplies and publications	3,080	2,883	197
Repairs and maintenance	535	357	178
Contractual	13,000	12,998	2
Telephone	385	383	2
Liability insurance	5,895	5,894	1
Equipment rental and miscellaneous	120	104	16
	<u>86,670</u>	<u>86,220</u>	<u>450</u>
System Maintenance:			
Salaries	9,800	5,857	3,943
Payroll taxes and benefits	750	448	302
Retirement	1,100	638	462
Retiree health	425	240	185
Contractual	1,300	500	800
Permits	2,000	--	2,000
Dues and memberships	160	94	66
Supplies and publications	2,100	501	1,599
Repairs and maintenance	8,085	6,056	2,029
	<u>25,720</u>	<u>14,334</u>	<u>11,386</u>



CITY OF MARINE CITY**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES
(Continued)**

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
SEWER (Continued)			
Plant Operations:			
Salaries	\$ 159,465	\$ 159,126	\$ 339
Payroll taxes and benefits	36,650	32,223	4,427
Retirement	17,000	16,903	97
Retiree health	6,420	6,418	2
Physical exams	100	—	100
Supplies and publications	4,245	3,381	864
Fuel	450	259	191
Clothing	2,000	1,154	846
Lab supplies	4,940	4,341	599
Treatment supplies	9,050	9,049	1
Custodial supplies	275	—	275
Repairs and maintenance	14,755	12,672	2,083
Contractual	25,175	18,995	6,180
Advertising	135	—	135
Landfill and generation charges	12,000	1,536	10,464
Biosolids removal	65,545	64,543	1,002
Telephone	4,520	4,511	9
Dues and memberships	150	109	41
Permit fees	5,500	5,500	--
Meals and travel	380	31	349
Utilities	56,100	46,723	9,377
Training	550	75	475
Depreciation	--	429,590	(429,590)
	<u>425,405</u>	<u>817,139</u>	<u>(391,734)</u>
Pump/Lift Station:			
Salaries	1,575	1,225	350
Payroll taxes	125	94	31
Retirement	125	95	30
Retiree health	50	36	14
Supplies	590	588	2
Contractual services	3,225	2,986	239
Telephone	650	640	10
Utilities	9,000	8,798	202
Repairs and maintenance	7,715	6,886	829
	<u>23,055</u>	<u>21,348</u>	<u>1,707</u>
TOTAL SEWER OPERATING EXPENSES	\$ 560,850	\$ 939,041	\$ (378,191)



CITY OF MARINE CITY**SCHEDULE OF INDEBTEDNESS**

June 30, 2006

Water Supply and Sewage Disposal System Revenue Bonds - Series III:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
10-2-81	\$ 628,000	5.00%	2007	\$ —	\$ 23,500	\$ 23,500
Principal due July 1			2008	10,000	23,000	33,000
Interest due July 1			2009	10,000	22,500	32,500
and January 1			2010	35,000	21,375	56,375
			2011	35,000	19,625	54,625
			2012	35,000	17,875	52,875
			2013	35,000	16,125	51,125
			2014	35,000	14,375	49,375
			2015	35,000	12,625	47,625
			2016	35,000	10,875	45,875
			2017	40,000	9,000	49,000
			2018	40,000	7,000	47,000
			2019	40,000	5,000	45,000
			2020	40,000	3,000	43,000
			2021	40,000	1,000	41,000
<i>Total Revenue Bonds</i>				<u>465,000</u>	<u>\$ 206,875</u>	<u>\$ 671,875</u>



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS (Continued)

June 30, 2006

Drinking Water Revolving Fund Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-29-98	\$ 1,155,000	2.50%	2007	\$ 55,000	\$ 20,250	\$ 75,250
Principal due April 1			2008	55,000	18,875	73,875
Interest due October 1 and April 1			2009	55,000	17,500	72,500
			2010	60,000	16,125	76,125
			2011	60,000	14,625	74,625
			2012	60,000	13,125	73,125
			2013	60,000	11,625	71,625
			2014	65,000	10,125	75,125
			2015	65,000	8,500	73,500
			2016	65,000	6,875	71,875
			2017	70,000	5,250	75,250
			2018	70,000	3,500	73,500
			2019	70,000	1,750	71,750
Total Issue Outstanding				810,000	\$ 148,125	\$ 958,125

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
12-23-05	\$ 2,500,000	2.125%	2007	\$ 100,000	\$ 41,801	\$ 141,801
Principal due April 1			2008	105,000	42,975	147,975
Interest due October 1 and April 1			2009	105,000	40,744	145,744
			2010	110,000	38,513	148,513
			2011	110,000	36,175	146,175
			2012	115,000	33,838	148,838
			2013	115,000	31,394	146,394
			2014	115,000	28,950	143,950
			2015	120,000	26,506	146,506
			2016	125,000	23,956	148,956
			2017	125,000	21,300	146,300
			2018	130,000	18,644	148,644
			2019	130,000	15,881	145,881
			2020	135,000	13,119	148,119
			2021	135,000	10,250	145,250
			2022	140,000	7,381	147,381
			2023	140,000	4,406	144,406
			2024	145,000	1,431	146,431
			2025	150,000	—	150,000
			2026	150,000	—	150,000
Amounts contractually obligated to draw @ 6/30/06				(796,018)	(6,487)	(802,505)
Total Issue Outstanding				1,703,982	\$ 430,777	\$ 2,134,759
Total Water and Sewer Fund Bonded Indebtedness				2,978,982		



CITY OF MARINE CITY**SCHEDULE OF INDEBTEDNESS***(Continued)*

June 30, 2006

Special Assessment Bonds - 1981:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
10-2-81	\$ 167,000	5.00%	2007	\$ 4,000	\$ 3,750	\$ 7,750
Principal due September 1			2008	4,000	3,550	7,550
Interest due September 1			2009	4,000	3,350	7,350
and March 1			2010	4,000	3,150	7,150
			2011	5,000	2,925	7,925
			2012	5,000	2,675	7,675
			2013	5,000	2,425	7,425
			2014	5,000	2,175	7,175
			2015	5,000	1,925	6,925
			2016	6,000	1,650	7,650
			2017	6,000	1,350	7,350
			2018	6,000	1,050	7,050
			2019	6,000	751	6,751
			2020	6,000	450	6,450
			2021	6,000	150	6,150
<i>Total Special Assessment Bonded Indebtedness</i>				<u>77,000</u>	<u>\$ 31,326</u>	<u>\$ 108,326</u>



CITY OF MARINE CITY**SCHEDULE OF INDEBTEDNESS***(Continued)*

June 30, 2006

General Obligation Public Improvement Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
4-1-87	\$ 2,750,000	6.25%	2007	\$ 75,000	\$ 4,688	\$ 79,688
Principal due April 1						
Interest due April 1 and October 1						
Total Issue Outstanding				<u>75,000</u>	<u>\$ 4,688</u>	<u>\$ 79,688</u>

1991 General Obligation Unlimited Tax Bonds - Series A:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
6-27-91	\$ 9,010,000	2.00%	2007	\$ 460,000	\$ 68,500	\$ 528,500
Principal due April 1			2008	470,000	59,300	529,300
Interest due April 1 and October 1			2009	480,000	49,900	529,900
			2010	490,000	40,300	530,300
			2011	500,000	30,500	530,500
			2012	510,000	20,500	530,500
			2013	515,000	10,300	525,300
Total Issue Outstanding				<u>3,425,000</u>	<u>\$ 279,300</u>	<u>\$ 3,704,300</u>



CITY OF MARINE CITY**SCHEDULE OF INDEBTEDNESS***(Continued)*

June 30, 2006

1992 General Obligation Unlimited Tax Bonds - Series C:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-24-92	\$ 760,000	2.00%	2007	\$ 20,000	\$ 2,700	\$ 22,700
Principal due April 1			2008	20,000	2,300	22,300
Interest due April 1 and October 1			2009	25,000	1,900	26,900
			2010	25,000	1,400	26,400
			2011	25,000	900	25,900
			2012	20,000	400	20,400
Total Issue Outstanding				<u>135,000</u>	<u>\$ 9,600</u>	<u>\$ 144,600</u>

1992 Limited Tax General Obligation Wastewater Treatment System Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-24-92	\$ 645,000	2.00%	2007	\$ 20,000	\$ 2,000	\$ 22,000
Principal due April 1			2008	20,000	1,600	21,600
Interest due April 1 and October 1			2009	20,000	1,200	21,200
			2010	20,000	800	20,800
			2011	20,000	400	20,400
Total Issue Outstanding				<u>100,000</u>	<u>\$ 6,000</u>	<u>\$ 106,000</u>

**Total Governmental Funds
Bonded Indebtedness**

3,735,000



CITY OF MARINE CITY
SCHEDULE OF INDEBTEDNESS
(Continued)

June 30, 2006

Xerox Leases:

	Monthly Payment	Payments Remaining	Total Payments
Collateral			
Xerox Copier	\$ 206.19	22	\$ 4,536
Xerox Copier	58.49	7	409
			<u>4,945</u>

Building Lease:

	Monthly Payment	Payments Remaining	Total Payments
Collateral			
Building	\$ 2,300	15	\$ 34,500

Fire Truck Capitalized Leases:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-14-98	\$ 275,975	6.61%	2007	\$ —	\$ —	\$ —
Annual payments due each			2008	25,687	8,333	34,020
July 1 in the amount of			2009	27,172	6,848	34,020
\$34,020			2010	28,743	5,278	34,021
			2011	30,404	3,616	34,020
			2012	32,161	1,859	34,020
				<u>144,167</u>	<u>\$ 25,934</u>	<u>\$ 170,101</u>

Backhoe Loader Capitalized Lease:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
7-10-04	\$ 73,214	4.8%	2007	\$ 13,941	\$ 2,876	\$ 16,817
Annual payments due each			2008	14,611	2,207	16,818
July 10 in the amount of			2009	15,312	1,505	16,817
\$16,817			2010	16,047	770	16,817
				<u>59,911</u>	<u>\$ 7,358</u>	<u>\$ 67,269</u>

Police Car Capitalized Lease:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
5-10-06	\$ 15,591	11.3%	2007	\$ —	\$ —	\$ —
Annual payments due each			2008	4,528	1,882	6,410
July 1 in the amount of			2009	5,258	1,152	6,410
\$6,410			2010	5,805	604	6,409
				<u>15,591</u>	<u>\$ 3,638</u>	<u>\$ 19,229</u>

Total Leases **259,114**

TOTAL INDEBTEDNESS **\$ 7,050,096**



CITY OF MARINE CITY

COMPONENT UNITS SCHEDULE OF INDEBTEDNESS

June 30, 2006

Tax Increment Bonds, Series 2001:

Date of Issue	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
5-1-01	\$ 425,000	4.10%	2007	\$ 20,000	\$ 15,460	\$ 35,460
Principal due October 1		4.20	2008	20,000	14,630	34,630
Interest due October 1		4.30	2009	20,000	13,780	33,780
and April 1		4.40	2010	20,000	12,910	32,910
		4.50	2011	25,000	11,908	36,908
		4.60	2012	25,000	10,770	35,770
		4.70	2013	25,000	9,608	34,608
		4.80	2014	25,000	8,420	33,420
		4.90	2015	30,000	7,085	37,085
		5.00	2016	30,000	5,600	35,600
		5.00	2017	30,000	4,100	34,100
		5.10	2018	30,000	2,585	32,585
		5.20	2019	35,000	910	35,910
<i>Total Component Unit Indebtedness</i>				\$ 335,000	\$ 117,766	\$ 452,766





**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

September 14, 2006

Honorable Mayor and City Council
City of Marine City
Marine City, Michigan 48039

Honorable Members:

We have examined the financial statements of the City of Marine City for the year ended June 30, 2006, and have issued our report thereon dated September 14, 2006. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. As a result of our examination, we offer the following comments and recommendations.

FRAUD PREVENTION

Our review of the City's policies and procedures with regards to fraud prevention indicate a need for a formal policy regarding fraud prevention. This policy should be clearly communicated to all employees, and contain a specific procedure to allow for employee reporting of any suspected fraud.

PERMITS

During our examination, we noticed that an incorrect rate was charged on one curb cut permit. The permits should accurately describe the work the permit is issued for, and how the fee has been determined.

CEMETERY TRUST

The City should consider a standing resolution to transfer annual interest revenue from the Cemetery Trust Fund to the Cemetery Fund.

CHART OF ACCOUNTS

During our examination, we noticed that the Zoning Commission, Planning Commission, and Board of Review are all combined in the same department on the General Fund Trial Balance. These should be separated to be in conformity with the Uniform Chart of Accounts.

CONCLUSION

As in the past several years, the City should be commended on the accuracy and completeness of its accounting systems, procedures, and financial reporting.

We would like to thank the City Manager, Treasurer, Clerk, and other City personnel for the cooperation and courtesies extended to us during our audit.

Respectfully submitted,

McBride, Manley & Miller

McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



McBride, Manley
& Miller P.C.

CITY OF MARINE CITY
St. Clair County, Michigan
SINGLE AUDIT REPORTS
For The Year Ended June 30, 2006

CITY OF MARINE CITY

TABLE OF CONTENTS

	<i>Page</i>
Independent Auditors' Reports and Schedules	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6





**McBride, Manley
& Müller P.C.**

Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 14, 2006

Honorable Mayor and City Commission
City of Marine City
303 S. Water Street
Marine City, Michigan 48039

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marine City, as of and for the year ended June 30, 2006, which collectively comprise the City of Marine City's basic financial statements and have issued our report thereon dated September 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marine City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marine City's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Marine City in a separate letter dated September 14, 2006.

This report is intended solely for the information and use of the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants





**McBride, Manley
& Müller P.C.**

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 14, 2006

Honorable Mayor and City Commission
City of Marine City
303 S. Water Street
Marine City, Michigan 48039

Compliance

We have audited the compliance of the City of Marine City with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Marine City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Marine City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marine City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Marine City's compliance with those requirements.

In our opinion, the City of Marine City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Marine City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marine City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Marine City as of and for the year ended June 30, 2006, and have issued our report thereon dated September 14, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



CITY OF MARINE CITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2006

<i>Federal Grantor/Pass-through Grantor Title</i>	<i>Federal CFDA Number</i>	<i>Project Number</i>	<i>Federal Expenditures</i>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through Michigan Department of Environmental Quality Capitalization Grants for Drinking Water State Revolving Fund*	66.468	7159-01	\$ 669,495
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through St. Clair County security grant funds	97.067	N/A	742
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION DEPARTMENT OF TRANSPORTATION</u>			
Passed Through St. Clair County transportation funds	20.600	N/A	8,372
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>			\$ 678,609

* Designates Major Federal Financial Assistance Program

NOTE 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Marine City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: Loans Outstanding

The City of Marine City had an outstanding loan balance of \$1,703,982 under the Drinking Water State Revolving Fund (CFDA #66.468) as of June 30, 2006.



CITY OF MARINE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified?

_____ Yes x No

Reportable conditions identified that are not considered to be material weaknesses?

_____ Yes x No

Noncompliance material to financial statements noted?

_____ Yes x No

FEDERAL AWARDS

Internal control over major programs:

Material weakness identified?

_____ Yes x No

Reportable conditions identified that are not considered to be material weaknesses?

_____ Yes x No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ Yes x No

Identification of major programs:

CFDA Number(s)

66.468

Name of Federal Program or Cluster

Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?

_____ Yes x No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

